

Affinity Fraud: The Ultimate Confidence Game

In today's investment climate, an ever-increasing number of Americans are putting their money in the financial markets. While this is good for the economy and often lucrative for individuals, many pitfalls remain. Stories of fabulous short-term gains may have created an atmosphere of unrealistic expectations. No one wants to miss the golden opportunities of the great bull market, but determining where to invest is often difficult. As a short cut, people may rely on friends and persons like themselves for investment advice. This is where affinity fraud comes into play.

"Affinity fraud" involves con artists who target members of their own race, nationality or religious affiliation and exploit their status as members of the group to solicit investments in fraudulent schemes.

In one way or another, everyone is connected to a group or association. Our ethnicity, interests, backgrounds and other factors will naturally lead to such organizations or affiliations. Our cultural and religious beliefs contribute to this allegiance to groups that we often come to trust--sometimes to our detriment. Because the average person does not have the time or resources to research investment opportunities, they are vulnerable to affinity fraud.

Since the swindler is a fellow group member, he or she appears a natural match for sharing information, resources and entrusting funds. The hook is the affiliation to the group members who are the potential investors. The scam artist plays up the association that he or she and the investor have in the hopes of lowering the investor's guard and exploiting a natural trust.

Affinity fraud is a successful tool for scam artists. Once a victim realizes that he or she has been scammed, often the response is *not* to notify the authorities, but to try and solve the problem within the group. This intergroup loyalty is an aspect that swindlers play upon, especially among people of color and ethnic minority groups. A desire to find an amicable resolution "among ourselves" allows the swindler to continue his scam undetected by regulators, and if necessary, plan a discrete escape or cover his tracks.

New immigrants may be particularly vulnerable. Since new immigrants may be isolated from the larger community, their access to information is restricted. Swindlers who claim to provide "safe" alternatives to banks or have "no-risk" investments can take the funds of these persons and disappear, dashing hopes and dreams of starting a new life in this country. The fact that these immigrants are not familiar with the laws and ways of American society and are reluctant to call authorities greatly increases the swindler's success.

Similarly, members of long-established ethnic groups that have amassed savings and achieved certain standards of living often have a desire to "give back" to their communities. Affinity fraud artists of the same ethnicity often try to appeal to such sentiments. Con artists also use this tactic in the increasing number of religious affinity fraud cases. Swindlers who prey upon their co-religionists come in all denominations.

Some recent examples:

- In Arizona, the Baptist Foundation of Arizona is a recent example of an affinity fraud. The Corporation Commission issued an order requiring the Baptist Foundation of Arizona and two related corporations, Arizona Southern Baptist New Church Ventures, Inc., and Christian Financial Partners, Inc., to cease and desist from violating the Arizona Securities Act in offering and selling their investment products. The three nonprofit corporations have sold more than \$530 million in investments involving promissory notes, to more than 13,000 investors throughout the United States. An investigation conducted by the Securities Division revealed that the Foundation had misrepresented its financial condition to investors.
- In Florida trial has been scheduled for seven officials of the Tampa-based Greater Ministries International Church. They are charged in a 20-count federal indictment alleging conspiracy, money laundering and mail fraud. State securities regulators and prosecutors believe Greater Ministries operated a massive Ponzi scheme that may have defrauded more than 17,000 investors nationwide of as much as \$200 million. Investors, many of whom are fundamentalist Christians, are located throughout the country including Arizona. The defendants told investors that their money would double in 17 months or less. Investors were quoted Luke 6:38: "Give, and it shall be given unto you." Greater Ministries officials told investors that state and federal securities laws did not apply to them because the investments were "gifts" to the Church and the payments from the church to investors, called "blessings," were not subject to taxes.
- In Texas, a former Sunday school teacher is being sought by the FBI on charges that he swindled at least 33 people, many of them church members, out of more than \$1 million. According to Texas officials, the suspect victimized members of a church, who like him, were immigrants from India. The suspect allegedly got money from investors to buy nationally known stocks and then stashed the cash in their personal bank and brokerage accounts.
- In Wisconsin, one scam artist is charged with securities fraud involving a scheme in which he was allegedly going to create a local minority-owned and operated telephone company. To raise money for this venture, the promoter targeted members of the Milwaukee inner city, often going through local churches to reach parishioners. Hundreds of Milwaukee residents are believed to have invested. They were told that they would make money on the operations of the company and through a future public offering. Soon after the money was raised the company, Intra Community Communications, filed for bankruptcy protection.
- In Indiana, state securities regulators say elderly investors were duped into buying bogus promissory notes by three men, two insurance agents and an investment adviser, who often got on their knees and prayed with their victims to gain their trust.
- In Alabama this year, the court sentenced a defendant to 30 years for bilking 30 retirement age investors out of nearly \$6 million. At the sentencing hearing, the judge received many letters about the defendant, a former financial consultant. Many victims, the judge said, were drawn to the defendant because he was charismatic and had

“Christian values.”

Avoiding affinity fraud, as with any other investment advice or product, involves taking precautions. There are several steps a careful investor can take to significantly decrease the possibility of being a victim of affinity fraud:

- ❖ Investors should be on guard when someone uses testimonials from group members in connection with soliciting investments.
- ❖ Be wary of promises of high returns of your investment.
- ❖ Early and high returns on investments may only be indicative of a “Ponzi” scheme, which involves the use of later investors’ money to pay earlier investors. These early investors become unwitting, but enthusiastic promoters of the scheme.
- ❖ Always get an investment offering in writing. A legitimate promoter should always willingly provide detailed written materials describing the uses of your funds, the risks involved in the investment, financial statements, and any conflicts of interest that the promoter may have.
- ❖ Once obtaining written disclosures, it is always a good idea to seek outside professional advice. An *independent* accountant, financial planner, or attorney can help you to evaluate the investment.
- ❖ Do not rush into making an investment decision. If the promoter is requiring you to make a hasty decision, it is likely that the investment is scam. There are many legitimate investments available in today’s market. You should not let yourself be rushed into investing in a fraudulent one.
- ❖ The Arizona Corporation Commission-Securities Division can help. Before you actually put your money into the investment, call the Securities Division to learn whether you are dealing with a registered salesperson and firm. A simple inquiry into whether the person and firm touting the investment are licensed in Arizona can speak volumes. Don’t just take the word of a salesperson; check the investment out for yourself.

To contact the Arizona Corporation Commission-Securities Division, call **602-542-4242** or toll free, **1-866-VERIFY-9** (outside metro Phoenix and Arizona), or e-mail, **info@azinvestor.gov**. Also, visit our web site at **www.azinvestor.gov**.

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